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SUBJECT: "TRNC" ANTI-MONEY LAUNDERING EFFORTS SLOWLY ADVANCE

REF: A. 07 NICOSIA 797

[1](#)B. 07 NICOSIA 980

[1](#)1. (SBU) On January 23-24, another in a series of EU-sponsored seminars on anti-money laundering and financial sector reform was held in the "TRNC." Unlike the previous meeting held in September (reftel,) only one expert came from abroad to provide comments on the recently-passed "TRNC" anti-money laundering (AML) legislation. The limited foreign attendance was the result of a) the program having been rescheduled from December due to the unavailability of "Finance Undersecretary," Zeren Mungan; and b) some disgruntlement that the AML legislation had already passed "parliament" prior to the opportunity for final foreign expert feedback.

[1](#)2. (SBU) Despite this, the "TRNC anti-money laundering board" members comprising the "TRNC" delegation received generally positive feedback about the new AML legislation and were encouraged to complete their action plan in time for presentation at the next FATF board meeting in February. Both sides agreed that considerable technical assistance would be required to help convert the "AML Board" into a properly functioning Financial Intelligence Unit (FIU).

[1](#)3. (SBU) A USAID contractor working on banking issues in the areas administered by Turkish Cypriots noted that there are special challenges to an effective AML regime. For instance, he noted that with such a small community, everyone knows each other, at least by reputation. While this helps make easy the "know your customer" rule and quickly identifies "outsiders", it also potentially makes arm's length analysis problematic. Also, the Turkish Cypriot economy's reliance on subsidies (mostly from Turkey,) heightens the risk of "politically exposed" persons.

[1](#)4. (SBU) At the September event, the "TRNC" delegation provided assurances that new banking and casino laws would be passed by December. This time, however, "Undersecretary" Mungan said that there was no timeline for passage of this new legislation. Draft language for a revised casino law was provided on January 22 and is currently under review by the EU. With casinos a likely vector for AML activity in the "TRNC", it will be important for the nascent IFU's credibility that appropriate casino regulation pass soon.

[1](#)5. (SBU) Comment: The EU officials are pleased that the Turkish Cypriots are remaining focused on standing-up a properly organized and resourced "FIU" this year. The distinct lack of local expertise will necessitate donors working together and with the Turkish Cypriots to create a comprehensive training program to continue the momentum and ensure the FIU gets off on the right foot. With a liquidity crisis currently underway in the Turkish Cypriot economy, (see reftel B) cash-strapped local market players may be more

attracted to a little money-laundering as a short-term fix to
their financial problems.
SCHLICHER